

R 041301Z JUN 09
FM AMEMBASSY SARAJEVO
TO SECSTATE WASHDC 0282
INFO EUROPEAN POLITICAL COLLECTIVE
DEPT OF TREASURY WASHDC
DEPT OF COMMERCE WASHINGTON DC

C O N F I D E N T I A L SARAJEVO 000666

TREASURY FOR SCHMERIN, DEPARTMENT FOR EUR/SCE, EEB/IFD/OMA
(FREUDENWALD)

E.O. 12958: DECL: 06/02/2019

TAGS: [ECON](#) [EFIN](#) [EAID](#) [BK](#)

SUBJECT: BOSNIA: FEDERATION PM'S RESIGNATION COULD DELAY
IMF FUNDS

REF: SARAJEVO 589

Classified By: DCM Judith Cefkin for reason 1.4 (d).

¶1. (C) Summary: Federation Prime Minister Nedzad Brankovic proffered his resignation on May 27 under a cloud of corruption charges. While he is widely viewed as ineffective, his resignation, if accepted, will likely hinder the Federation's ability to fulfill the conditions necessary for the International Monetary Fund (IMF) standby arrangement negotiated in May. Brankovic's resignation and the political uncertainty regarding his replacement throw into question whether or not the Federation government can rebalance its budget by June 22, as required by the arrangement. His absence from the state-level National Fiscal Council, on which he serves in his capacity as entity PM, also means that there is no Bosniak vote, as needed to approve the budget framework required by the IMF. If the conditions are not met by June 22, the IMF executive board could refuse to approve the arrangement, thereby delaying or even short-circuiting the proposed USD 1.5 billion loan. End Summary.

¶2. (SBU) The resignation of Federation PM Nedzad Brankovic on May 27, although welcome on many fronts, could spell trouble for the new IMF arrangement reached on May 5. As described in reftel, in order for the IMF executive board to approve the arrangement and provide access to the first tranche of funding by July, BiH must fulfill three conditions: the rebalancing of the entity budgets, the adoption of a state-(national) level excise law, and the adoption of a budget framework. While Brankovic's resignation will have no effect on the state-level excise tax law, it could affect the other two conditions. It will be difficult for the Federation Government to agree to a rebalanced budget by the June 22 deadline without a Prime Minister to guide the negotiations. (Note: The ten cantons are targeted to make a majority of the required budget cuts under the Federation's current proposed plan, which will be politically contentious and difficult. End note).

¶3. (U) More troublesome is the fact that Brankovic was the only Bosniak (Bosnian Muslim) on the National Fiscal Council (the NFC), the body responsible for adopting a budget framework. The NFC is composed of the state and entity Prime Ministers and Finance Ministers. Without a Bosniak vote, the framework cannot be passed. His two deputies, one of whom is now the acting PM, are Croats. The political wrangling for a new PM has begun, but one is unlikely to be named in the next few critical weeks (Note: We will report more on the struggle to name a replacement for Brankovic septel. On balance, Brankovic's departure from the scene is a good thing, but the IMF arrangement could be collateral damage. End Note).

¶4. (C) Federation Finance Minister and acting PM, Vjekoslav Bevanda (a Croat), recently said that the absence of a Prime Minister will not affect the Federation's ability to satisfy IMF conditions because the conditions are not dependent upon one individual. Others we have spoken to feel otherwise.

The Head of Office for the EBRD in BiH, Giulio Moreno, thinks it is unlikely the IMF executive board will approve the arrangement negotiated by its staff if the rebalancing of the entity budgets has not been approved by the respective entity governments by June 22. He thinks this will cause a delay of the first loan disbursement by at least a month, although he does not think it will necessarily scuttle the entire deal. It is possible that the NFC could pass a budget framework in time if Brankovic, who is still serving on a technical mandate as PM, chooses to add his vote. Given his public statements, it is unlikely he will do so. If this is the case, a new PM (who will be a Bosniak) will need to be chosen quickly in order to satisfy this condition.

15. (C) Comment: While we view Brankovic's departure as a mostly welcome development in Federation politics, given his ineffectiveness and the corruption charges that continue to plague him, the timing was unfortunate in that it will most likely hurt Bosnia's chances at fulfilling the conditions necessary to receive badly needed IMF funding by July. Following the departure of the IMF mission in May, many experts were doubtful that BiH hold up its end of the bargain, and the Federation seems bent on proving them right. While the local IMF representative told Econoff the deal will eventually go through, most now believe it is unlikely to happen according to the original timeline. End Comment.

ENGLISH